

Peru

Peru: Pension system in 2010

The system allows people to choose either a public pay-as-you-go and defined-benefit scheme or a defined-contribution scheme managed by the private sector. The minimum pension only covers affiliates of the pay-as-you-go scheme; the pension fund option has not been established.

Key indicators

		Peru	LAC26
Average earnings	PEN	14 600	19 600
	USD	5 200	7 000
Public pension spending	% of GDP	1.7	3.1
Life expectancy	At birth	74.7	73.6
	At age 65	17.7	17.4
Population over age 65	% of working-age population	11.4	12.3

Qualifying conditions

Workers entering the public and private sectors can choose between the system of individual accounts (Private Pension System – SPP) and the public social insurance system (National Pension System – SNP). Those who do not elect either system will be affiliated with the private system. Affiliates to the public system can switch to the private system, but affiliates of the private system cannot return to the public system except under special circumstances.

The qualifying age for a pension for both men and women is 65, with a record of 20 years of contributions.

Benefit calculation

Old-age pension – public system

The reference wage for calculating pensions for those with between 20 and 25 years of contributions is the average earnings for the last five years; between 25 and 30 years, it is the average earnings for the last four years; and for those with more than 30 years of contributions, it is the average earnings for the last three years.

The amount of the future pension is determined by multiplying the current wage by the corresponding replacement rate (according to the table below). For this, there are five different replacement rates depending on the age range.

Age range	Replacement rates	
	% for 20 years of contributions	% for each additional year
0-36	30	2
37-46	35	2
47-56	40	2
57-61	45	2
62-110	50	4

The upper and lower limits are PEN 857.36 and PEN 415, respectively.

In addition to the future pension of the insured, a reserve is calculated which corresponds to the spouse's right to a survivor's pension (it is assumed that the marital status of all insured people is "married").

People born after 31 December 1946, receive from 30% to 45% of average earnings in the last 60 months, according to the insured's age on 14 June 2002 (30% if younger than age 31, 35% if aged 31 to 39, 40% if aged 40 to 49, or 45% if older than age 49) plus 2% for each additional year of contributions exceeding 20, up to 100%.

Defined contribution – Private sector

Individual Savings Accounts (*Cuentas Individuales de Capitalización* – CIC) are managed by the private sector.

Targeted

People who were born after 31 December 1945, who do not meet the qualifying conditions are entitled to a minimum pension. The minimum pension established by law is PEN 415 per month for those affiliates who have contributed for 20 years.

Variant careers

Early retirement

An insured person may draw a retirement pension before age 65 under the following conditions:

- When the balance of the CIC is sufficient to grant a pension equal to or greater than 50% of the average of the payments and declared earnings received in the preceding ten years before the date of the presentation of the retirement application, indexed to the consumer price index (CPI).
- Workers who, when they joined the SPP, had already met the requirements for early retirement under the SNP, for which their transfer to the SPP means a potential loss of well-being in terms of benefit calculation, because their date of entry to the SPP was before 2 January 2002.

Late retirement

Retirement can be delayed beyond age 65, and there are no penalties for doing so.

Under the public system, once the requirement of 20 years of contributions has been met, if the affiliate is 65 or older, they receive an increase of 4% of the replacement for each year, as long as the amount of the maximum pension does not exceed PER 857.

Personal income tax and social security contributions

Taxation of workers

Earnings up to 7 tax units (UIT) is taxed at 0%; between 7 and 27 UIT at 15%; between 27 and 54 UIT at 21%, and above 54 UIT at 30%. (In 2010: 1 UIT = PEN 3 600).

Social security contributions by workers

The employee contribution rate to the public scheme is 13%.

The contribution rate to the private scheme is 10%. Additionally, there are average contributions of 1.87% and 0.96% for administrative fees and for disability and survivors insurance, respectively, adding up to a total of 12.83%.

There is another contribution to social insurance, which is a voluntary payment for health insurance provided by a health care facility (EPS) for self-employed workers.

The maximum monthly earnings for the purpose of calculating contributions for disability and survivor benefits is PEN 7 306.96.

There is no maximum earnings level established for the purpose of calculating contributions for old-age benefits or administrative fees.

Taxation of pensioners

Pensions are not taxed.

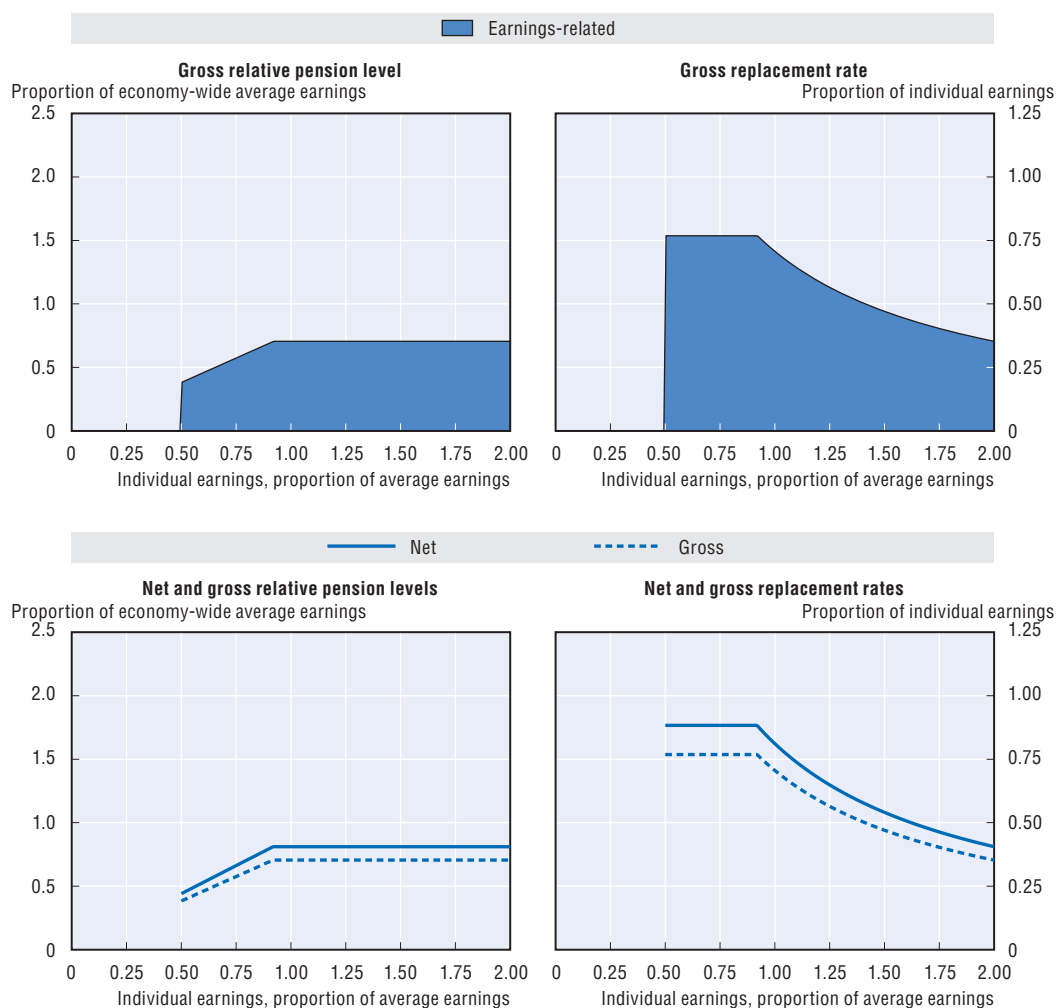
Social security contributions paid by pensioners

Pensioners do not contribute to social security.

Social assistance programmes**Social pension**

The National Welfare Assistance programme, known as Pension 65, was created in October 2011 to protect vulnerable adults over age 65 that are unable to meet basic subsistence needs. Since its creation, this subsidy has been given progressively to the poorest districts in the country. It was established as an amount per person, PEN 125. By July 2012, more than 126 000 older adults had been benefiting from this programme.

Pension modelling results: Peru (Public pension system)



Men	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1.0	1.5	2.0
Women (where different)						
Gross relative pension level (% average gross earnings)	62.2	38.4	57.6	70.6	70.6	70.6
Net relative pension level (% net average earnings)	71.5	44.2	66.2	81.1	81.1	81.1
Gross replacement rate (% individual gross earnings)	76.8	76.8	76.8	70.6	47.0	35.3
Net replacement rate (% individual net earnings)	88.3	88.3	88.3	81.1	54.1	40.6
Gross pension wealth (multiple of individual gross earnings)	12.0	12.0	12.0	11.0	7.3	5.5
Net pension wealth (multiple of individual gross earnings)	13.4	13.4	13.4	12.3	8.2	6.2
Net pension wealth (multiple of individual net earnings)	12.0	12.0	12.0	11.0	7.3	5.5
Net pension wealth (multiple of individual gross earnings)	13.4	13.4	13.4	12.3	8.2	6.2

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